FDIC State Profile

Fall 2005

Kentucky

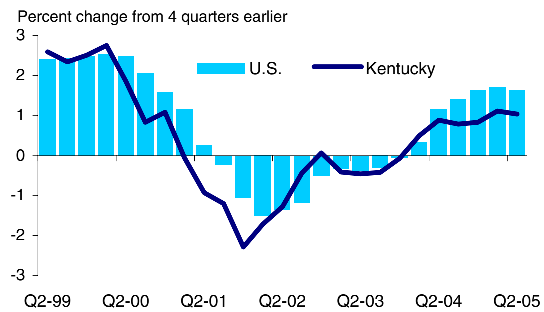
Kentucky enjoys continued and widespread employment growth.

- Second quarter 2005 marked the sixth consecutive quarter of job gains for Kentucky, with 18,700 new jobs added from second quarter 2004 to second quarter 2005. Despite increasingly better employment conditions, job growth in the state remained slower than that of the nation (see Chart 1).
- Job losses continued in Kentucky's financial activities and information sectors, while the professional and business services, leisure and hospitality, and construction sectors again posted strong year-over-year gains (see Chart 2). Moreover, the construction sector added 2,000 new jobs during the first half of this year, the largest number of new jobs added by this sector during the first six months of any year since 1996.
- Except for a small number of job losses in **Elizabethtown**, every metropolitan area in the state experienced employment growth in the year-ending second quarter. **Bowling Green** posted the largest rate of growth at 2.7 percent.
- Kentucky consumers quickly felt the effects of the recent Gulf Coast hurricanes as higher gas prices took a larger share of their paychecks. Should energy prices remain elevated, some energy-dependent manufacturers (especially auto producers and suppliers) may see profit margins squeezed; farmers may see higher harvest and shipping costs; and, ultimately, consumers may alter their spending and travel habits. Still, other industries associated with building materials and construction likely will see demand for their products increase as rebuilding efforts commence in the affected areas.

Personal income is rising, but financial stress remains evident for some households.

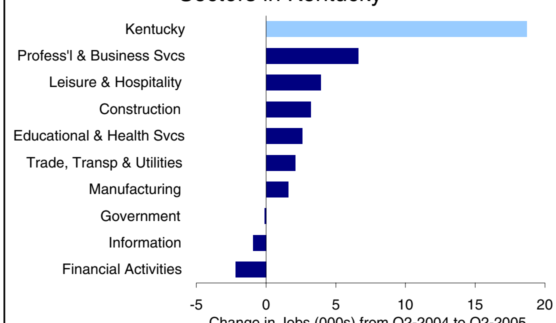
- Personal per capita income grew 5.0 percent from second quarter 2004 to second quarter 2005—the highest second quarter growth since prior to the 2001 recession. A steady rise in personal income, coupled with stronger labor market conditions and a relatively low cost of living, helped to maintain housing affordability. Kentucky's

Chart 1: Kentucky's Employment Growth Remains Slower than National Rate



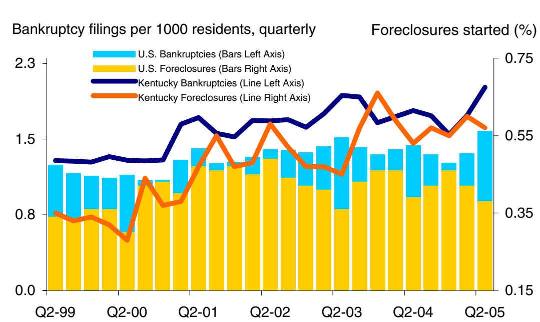
Source: Bureau of Labor Statistics

Chart 2: Job Gains Continued Across Most Major Sectors in Kentucky



Source: Bureau of Labor Statistics

Chart 3: Relatively High Bankruptcy and Foreclosure Rates Indicate Some Household Financial Stress



Source: Administrative Office of the U.S. Courts, Mortgage Bankers Association homeownership rate ranked 14th in the nation at 73.3 percent.

- Home values in Kentucky grew only 5.9 percent from second quarter 2004 to second quarter 2005, compared to the higher national rate of 13.4 percent. Most Kentucky metropolitan areas posted rates of home price appreciation between 4 and 6 percent. Interestingly, Elizabethtown reported the fastest home appreciation at 6.3 percent, despite small job losses for the year-ending second quarter 2005.

- Kentucky authorized a record number of single-family housing permits and experienced record sales of existing homes in the first half of 2005.

- Recent improvements in employment opportunities and rising personal income bode well for Kentucky's economy; however, signs of household financial stress remain evident. For example, mortgage foreclosure rates remained relatively high compared to the nation, and per capita personal bankruptcy filings rose to 2.0 per thousand people in Kentucky versus 1.6 per thousand nationwide (see Chart 3).

Kentucky's community institutions generated record second quarter earnings[1].

- Kentucky's community banks posted record high net income of $94 million for the three months ending June 30, 2005.

- Pre-tax return on assets for Kentucky's community institutions improved modestly in the second quarter, compared to the year-ago quarter. Small gains in noninterest income were offset by fewer securities gains (see Table 1).

- Net interest margins increased 6 basis points from a year ago to 4.01 percent in June 2005, as higher asset yields exceeded increases in funding costs. Growth in typically higher yielding loan categories, such as commercial and industrial loans, helped to boost loan yields. However, bank funding costs are poised to increase more rapidly than asset yields through 2005 should the yield curve continue to flatten.

- Growth in noncore funding sources continued to fuel growth in Kentucky's community institutions. Core deposits[2] as a percent of assets declined 165 basis points from a year ago to 64.2 percent.

Loan delinquencies hit historic lows in Kentucky.

- Past-due loan rates decreased 40 basis points over the past year to 1.9 percent, the lowest rate reported in more than 10 years. All major loan categories saw improvement, with only the home equity portfolio reporting a small deterioration (see Chart 4).

- For the six months ending June 30, 2005, net charge-offs to loans and leases was at its lowest level in five years.

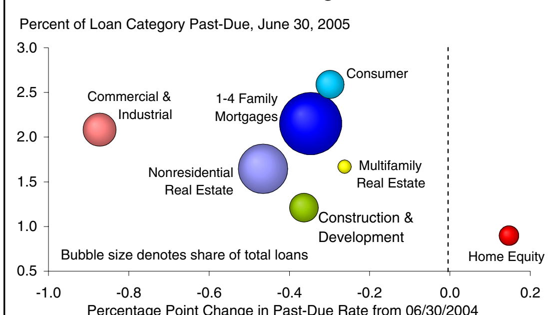
- As of mid-year 2005, loan loss reserves as a percentage of noncurrent loans increased to 151.2 percent, the highest level in a decade.

Table 1: Higher Loan Yields Improved Second Quarter Profitability

Income statement contribution (percent of average assets)	3 months ended June 30		Percentage Point Change
	2004	2005	
Net Interest Income	3.61	3.70	0.09
Noninterest Income	0.86	0.88	0.02
Noninterest Expense	-2.92	-2.92	0.00
Provision Expense	-0.19	-0.18	0.01
Security Gains & Losses	0.06	0.04	-0.02
Pretax Net Income	1.42	1.52	0.10
Income Taxes	-0.31	-0.35	-0.04
Net Income (ROA)	1.11	1.17	0.06

Source: FDIC. Merger-adjusted data for Kentucky's Community Institutions

Chart 4: Loan Quality Improved Across Major Portfolio Categories



Source: FDIC. Merger-adjusted data for Kentucky's Community Institutions

[1] Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.
[2] Core deposits are total deposits less brokered deposits, large time deposits, and foreign deposits.

Kentucky at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	1.1%	0.9%	0.8%	-0.3%
Manufacturing (15%)	0.6%	0.4%	-0.3%	-0.6%	-3.5%
Other (non-manufacturing) Goods-Producing (6%)	3.8%	4.3%	1.1%	0.9%	-1.5%
Private Service-Producing (62%)	1.2%	1.4%	1.8%	1.5%	0.7%
Government (17%)	-0.1%	-0.3%	-1.4%	-1.0%	-0.7%
Unemployment Rate (% of labor force)	5.7	5.2	5.5	5.3	6.2

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.7%	5.1%	6.4%	5.5%	3.0%
Single-Family Home Permits	6.6%	-3.1%	6.9%	5.9%	4.8%
Multifamily Building Permits	-5.6%	1.0%	111.0%	53.1%	-4.7%
Existing Home Sales	5.4%	9.8%	10.5%	10.1%	10.3%
Home Price Index	5.9%	5.6%	4.8%	5.2%	3.8%
Bankruptcy Filings per 1000 people (quarterly annualized level)	8.05	6.94	7.12	6.79	7.08

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	230	232	240	237	243
Total Assets (in millions)	52,282	51,813	48,088	51,469	47,465
New Institutions (# < 3 years)	5	5	5	5	7
Subchapter S Institutions	46	46	50	49	43

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.79	2.08	2.18	2.07	2.41
ALLL/Total Loans (median %)	1.31	1.28	1.33	1.29	1.29
ALLL/Noncurrent Loans (median multiple)	1.92	1.87	1.38	1.82	1.49
Net Loan Losses / Total Loans (median %)	0.10	0.06	0.09	0.17	0.20

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.70	9.71	9.20	9.51	9.17
Return on Assets (median %)	1.19	1.08	1.11	1.10	1.05
Pretax Return on Assets (median %)	1.55	1.40	1.49	1.40	1.38
Net Interest Margin (median %)	4.05	4.00	4.00	4.01	3.95
Yield on Earning Assets (median %)	6.08	5.83	5.72	5.77	6.02
Cost of Funding Earning Assets (median %)	2.02	1.88	1.70	1.73	2.06
Provisions to Avg. Assets (median %)	0.13	0.12	0.13	0.17	0.21
Noninterest Income to Avg. Assets (median %)	0.75	0.66	0.73	0.68	0.72
Overhead to Avg. Assets (median %)	2.96	2.92	2.89	2.96	2.87

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	68.7	67.9	67.5	68.8	65.7
Noncore Funding to Assets (median %)	21.9	21.2	20.7	20.6	20.3
Long-term Assets to Assets (median %, call filers)	21.1	19.6	21.6	19.7	21.0
Brokered Deposits (number of institutions)	46	44	41	43	36
Brokered Deposits to Assets (median % for those above)	4.2	3.8	2.8	3.5	3.0

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	56.8	55.2	54.0	54.2	54.1
Commercial Real Estate	165.1	164.3	157.3	163.7	154.6
Construction & Development	24.0	26.2	22.0	22.9	21.3
Multifamily Residential Real Estate	5.1	5.4	5.9	5.5	5.2
Nonresidential Real Estate	121.7	115.9	119.8	119.5	116.0
Residential Real Estate	278.4	282.1	284.7	292.7	287.9
Consumer	53.7	53.8	62.5	57.0	66.7
Agriculture	39.8	34.2	37.7	33.9	42.4

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Louisville, KY-IN	51	19,335	< $250 million	192 (83.5%)
Lexington-Fayette, KY	34	6,502	$250 million to $1 billion	32 (13.9%)
Huntington-Ashland, WV-KY-OH	28	3,453	$1 billion to $10 billion	5 (2.2%)
Clarksville, TN-KY	15	2,208	> $10 billion	1 (0.4%)
Owensboro, KY	14	1,966		